

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGRE-00 /077 W

-----180755Z 075684 /22

R 180650Z JAN 77

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 2290

INFO AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

USLO PEKING

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E.O. 11652: N/A

TAGS: ECON, TW

SUBJECT: ROC ECONOMIC PROSPECTS FOR 1977

SUMMARY. EXPANSION OF FOREIGN TRADE WILL CONTINUE TO BE THE MOST SIGNIFICANT ELEMENT OF ROC ECONOMIC GROWTH. THE LEVEL OF GNP GROWTH WILL THUS BE CRITICALLY INFLUENCED BY CONDITIONS IN TAIWAN'S MAJOR FOREIGN MARKETS - THE U.S., JAPAN, AND WESTERN EUROPE. ASSUMING A RESUMPTION OF GROWTH IN THESE COUNTRIES, ROC CAN LOOK FORWARD TO A REASONABLY GOOD YEAR - ALTHOUGH NOT AS GOOD AS IN 1976. THE ECONOMIC PLANNING COUNCIL (EPC) HAS PROJECTED A REAL GROWTH RATE OF 8.5 PERCENT FOR 1977. ALTHOUGH THERE IS A SUBSTANTIAL BODY OF OPINION IN BUSINESS AND INDUSTRIAL SECTORS THAT THIS IS AN OVERLY-OPTIMISTIC FORECAST, THE EMBASSY BELIEVES IT CAN BE ATTAINED PROVIDED GROC UNDERTAKES APPROPRIATE STIMULATIVE MEASURES. END SUMMARY.

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1. THE ONLY SAFE PREDICTION THAT CAN BE MADE ABOUT THE ROC ECONOMY IN 1977 IS THAT THE REAL GROWTH RATE OF 11.8 PERCENT ACHIEVED IN 1976 WILL NOT BE EQUALLED OR SURPASSED. BEYOND THAT THERE IS NO CONSENSUS. OPINIONS EXPRESSED IN EMBASSY DISCUSSIONS WITH SENIOR GROC OFFICIALS AND FOREIGN AND LOCAL BUSINESS LEADERS RANGED FROM DEEP PESSIMISM TO CAUTIOUS OPTIMISM.

2. THE MOST AUTHORITATIVE PREDICTIONS THAT HAVE BEEN MADE EMANATE FROM THE ECONOMIC PLANNING COUNCIL (EPC). IT ESTIMATES THAT REAL GROWTH IN 1977 WILL BE ABOUT 8.5 PERCENT, WITH GROWTH BY MAJOR SECTORS AS FOLLOWS: AGRICULTURE - 2.4 PERCENT, BASIC INDUSTRY - 13 PERCENT, MINING - 3.5 PERCENT, CONSTRUCTION - 7.9 PERCENT, MANUFACTURING - 14.1 PERCENT, TRANSPORTATION AND COMMUNICATIONS - 9 PERCENT AND SERVICES - 4.8 PERCENT. THESE ESTIMATES ARE PREDICATED ON A TOTAL FOREIGN TRADE OF US \$18.5 BILLION (CUSTOMS BASIS) WITH A FAVORABLE TRADE BALANCE OF US \$300 MILLION. COMPARABLE FIGURES FOR 1976 WERE US \$15.7 BILLION AND US \$490 MILLION, RESPECTIVELY.

3. IN THE EMBASSY'S OPINION, THE PROGNOSIS OF THE EPC IS OPTIMISTIC. THE DIRECTOR OF THE BOARD OF FOREIGN TRADE, WHO USUALLY IS BULLISH ABOUT THE ROC ECONOMY, EXPECTS ONLY A SLIGHT INCREASE IN EXPORTS. HE CITES STILL SLUGGISH ECONOMIC CONDITIONS IN THE ROC'S MAJOR EXPORT MARKETS AND THE INCREASING NUMBER OF RESTRICTIONS BEING IMPOSED ON ROC EXPORTS AS REASONS FOR HIS LACK OF OPTIMISM. SOME OF THE SECTORAL PREDICTIONS OF THE EPC ALSO MAY BE CHALLENGED. A 2.5 GROWTH IN AGRICULTURE CAN BE ATTAINED ONLY IF THE 1976 BUMPER RICE HARVEST OF 2.7 MILLION TONS IS EQUALLED. IN THE OPINION OF THE RURAL ECONOMICS DIVISION OF THE JOINT COMMISSION ON RURAL RECONSTRUCTION, THE 1976 HARVEST WAS DUE TO EXTRAORDINARILY FAVORABLE GROWING CONDITIONS. IT IS HIGHLY UNLIKELY THAT SUCH CONDITIONS WILL OCCUR AGAIN IN 1977. A 14.1 PERCENT GROWTH IN MANUFACTURING CAN BE ATTAINED ONLY IF DEMAND INCREASES FOR ROC MANUFACTURES. THE PROJECTED 3.5 PERCENT INCREASE IN MINING LIMITED OFFICIAL USE

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ALSO MAY BE CHALLENGED. COAL PRODUCTION IS ON THE DECLINE AND THE EFFORTS OF THE CHINESE PETROLEUM CORPORATION (CPC) TO FIND NEW EXPLOITABLE RESERVES OF OIL AND NATURAL GAS HAVE BEEN UNSUCCESSFUL. CPC OFFICIALS STATE THAT THEY ARE HOPEFUL THAT CURRENT DRILLING EFFORTS OFF KAOHSIUNG WILL REVEAL SIZEABLE FIELDS OF OIL AND/OR GAS BUT EVEN IF THOSE HOPES ARE REALIZED IT WILL TAKE SEVERAL YEARS AND HUGE OUTLAYS OF CAPITAL TO BRING THOSE FIELDS INTO PRODUCTION.

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4. WHILE THE EPC'S PREDICTIONS MAY TURN OUT TO BE ACCURATE, AND POSSIBLY COULD EVEN BE TOO CONSERVATIVE (IF THE ECONOMIES OF THE DEVELOPED COUNTRIES PICK UP SUBSTANTIALY), THE EMBASSY BELIEVES THAT A REAL GROWTH RATE AS HIGH AS 8.5 PERCENT CAN BE ACHIEVED IF GROU UNDER TAKES FAIRLY STRONG STIMULATIVE ACTION, AND BANK CREDIT BECOMES MORE READILY AVAILABLE. OTHERWISE, WE WOULD EXPECT A GROWTH RATE IN THE RANGE OF ONLY 4.5 TO 5 PERCENT. THIS BELIEF IS SHARED BY THE U.S. BANKING COMMUNITY AND BY RESPONSIBLE ROC ECONOMISTS FROM UNIVERSITIES AND THE PRIVATE SECTOR.

5. PRICE STABILITY, WHICH TRADITIONALLY HAS BEEN A CORNERSTONE OF GROU ECONOMY POLICY, WILL CONTINUE TO BE A MAJOR OBJECTIVE IN 1977. THE TARGET IS TO HOLD THE INFLATION RATE TO NOT MORE THAN A 5 PERCENT INCREASE OVER 1976. THIS IMPLIES CONTINUED RESTRAINT ON THE GROWTH OF THE MONEY SUPPLY AND STRONG EFFORTS TO KEEP THE LID ON WHOLESALE AND CONSUMER PRICES. IN THE LATTER CONNECTIONS, THE GROU HAS WARNED BUSINESS AND INDUSTRY

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AGAINST USING THE RECENT INCREASE IN OIL PRICES AS JUSTIFICATION FOR "UNWARRANTED" PRICE INCREASES. CPC PASSED ON THE PRICE INCREASE ONLY TO THE TAIWAN POWER COMPANY, WHICH, IN TURN, RAISED ELECTRICITY RATES AN AVERAGE OF 20 PERCENT. THIS INCREASE, HOWEVER, IS EXPECTED TO ADD ONLY ABOUT 0.5 PERCENT TO COMMODITY PRICES. GIVEN THE ROC'S COMFORTABLE LEVEL OF FOREIGN ASSET RESERVES, CONTINUING HIGH RATE OF PERSONAL SAVING, AND GROWING GOVERNMENT REVENUES, WE DO NOT BELIEVE THAT A MORE EXPANSIONARY MONETARY POLICY, AS SUGGESTED IN PARA 4, WOULD BE INCONSISTENT WITH MAINTENANCE OF PRICE STABILITY.

6. DEVALUATION OF THE NT DOLLAR IS BEING SUGGESTED BY SOME EXPORT-ORIENTED MANUFACTURERS AS A NEEDED MEASURE TO IMPROVE THE ROC'S COMPETITIVE POSITION IN FOREIGN MARKETS. THE GROC, HOWEVER, DOES NOT BELIEVE THAT DEVALUATION IS JUSTIFIED AT PRESENT. ACCORDING TO THE GOVERNOR OF THE CENTRAL BANK, IT IS PREPARED TO CONSIDER DEVALUATION IF THE ROC'S COMPETITIVE POSITION VIS-A-VIS KOREA WERE TO BE WEAKENED BY A FURTHER DEVALUATION OF THE WON.

7. THE GROC IN 1977 WILL CONTINUE TO PROMOTE THE RATIONALIZATION OF ROC INDUSTRIES, SUCH AS TEXTILES, WHICH WERE NOT ABLE TO OPERATE AT A PROFIT IN 1976 IN A BUYER'S MARKET. THIS WILL BE ACCOMPLISHED PRIMARILY BY MEANS OF TAX INCENTIVES AND PREFERENTIAL ACCESS TO BANK CREDIT. IN THE PROCESS OF RATIONALIZATION MANY MARGINAL FIRMS PROBABLY WILL GO UNDER OR BE ABSORBED BY THE STRONGER COMPANIES. IN FACT, IN 1976 A NUMBER OF SMALL TEXTILE MILLS WENT OUT OF BUSINESS. THE GROC IS VERY MUCH AWARE THAT RATIONALIZATION WILL RESULT IN PROBLEMS AND DISLOCATIONS BUT IT CONSIDERS THAT THE ECONOMY WILL BENEFIT IN THE LONG RUN FROM THE WEEDING OUT OF FIRMS WHICH ARE BASICALLY UNCOMPETITIVE. MINISTER OF ECONOMIC AFFAIRS Y.S. SUN STATED ON DECEMBER 31 THAT THE STIFF COMPETITION FACED BY ROC ENTERPRISES IN WORLD MARKETS IN 1976 CAN BE EXPECTED TO CONTINUE THIS YEAR AND THAT THE ROC MUST BE "PSYCHOLOGICALLY PREPARED FOR SUCH ECONOMIC REALITIES." HE ALSO STATED THAT LIMITED OFFICIAL USE

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WHILE THE GROC WOULD OFFER ALL APPROPRIATE ASSISTANCE, THE ULTIMATE SOLUTION OF THE PROBLEM RESTS PRIMARILY ON "THE ENTREPRENEUR'S OWN EFFORTS AT SELF-IMPROVEMENT."

8. THE 1977 OUTLOOK FOR SPECIFIC INDUSTRIES VARIES CONSIDERABLY. ACCORDING TO THE INDUSTRIAL DEVELOPMENT BUREAU (IDB) OF THE MINISTRY OF ECONOMIC AFFAIRS, MOST INDUSTRIES CAN LOOK FORWARD TO GROWTH RATES MUCH LOWER THAN THOSE RATES ATTAINED IN 1976. THE IDB'S PROJECTIONS FOR MAJOR INDUSTRIES ARE AS FOLLOWS (1976 RATES IN PARENTHESES): CHEMICALS 6.7 (20.7), PETROLEUM REFINING 39.1 (40.5), BASIC METALS 14.6 (30.1), METAL PRODUCTS 13.3 (28.), NON-ELECTRIC MACHINERY 11.6 (27.8), ELECTRIC MACHINERY (INCLUDING ELECTRONICS) 20.3 (45.2), TEXTILES 9 (18.1), TRANSPORTATION EQUIPMENT 19.6 (0.3), FOODSTUFFS 8 (15.4), AND WOOD AND WOOD PRODUCTS 12.8 (30.0).

9. THIS TELEGRAM IS THE FIRST OF SEVERAL THAT WILL BE SUBMITTED IN THE NEAR FUTURE ON THE ROC ECONOMY IN 1977. SUBSEQUENT MESSAGES WILL COVER, INTER ALIA, THE MAJOR INDUSTRIAL SECTORS, AGRICULTURE, FOREIGN INVESTMENT, TAXATION, TOURISM, CAPITAL FLIGHT AND OIL EXPLORATION.  
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